

DG 01-177
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NORTHERN UTILITIES, INC.

**2001/2002 Winter Cost of Gas and Fixed Price Option Rates
and Local Distribution Adjustment Clauses**

**Order Approving the Cost of Gas and Fixed Price Option Rates
and Local Distribution Adjustment Clauses**

O R D E R N O. 23,825

October 31, 2001

APPEARANCES: Rubin & Rudman, L.L.P., by Frank Pozniak, Esq., on behalf of Northern Utilities, Inc.; Kenneth Traum on behalf of the Office of Consumer Advocate; and Marcia A.B. Thunberg, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 14, 2001, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) its Demand Side Management Conservation Charges (Conservation Charges) for the period November 1, 2001 through October 31, 2002 for Northern's natural gas operations in the Seacoast area of New Hampshire.

On September 18, 2001, Northern filed revised Conservation Charges.

On September 21, 2001, Northern filed its Cost of Gas (COG) for the period November 1, 2001 through April 30, 2002. The filing was accompanied by supporting attachments and the Direct Testimony of Joseph A. Ferro, Manager of Regulatory Policy, and Francisco C. DaFonte, Director of Gas Control.

The Commission issued an Order of Notice on September 26, 2001 and a hearing was held on October 18, 2001.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witnesses, Joseph A. Ferro and Francisco C. DaFonte, addressed the following issues: 1) calculation of the COG rates; 2) calculation of the FPO rates; 3) reasons for the decrease and customer bill impacts; 4) rate redesign and gas restructuring surcharges; 5) the Wells LNG peaking facility surcharge; 6) the environmental remediation surcharge; 7) the conservation charges; and 8) notification of monthly COG rate adjustments.

1. Calculation of the COG Rates

The proposed 2001/2002 Winter Residential COG rate of \$0.6549 per therm was calculated by dividing the total anticipated period cost of gas of \$23,232,561, comprised of direct gas costs of \$22,068,028 and indirect gas costs of \$1,164,533, by projected therm sales of 35,476,357.

The applicable ratios established in the Rate Redesign case were then applied to the average (Residential) COG rate to determine the Commercial/Industrial (C&I) Low Winter Use COG rate of \$0.4794 per therm and the C&I High Winter Use COG rate of \$0.7101 per therm.

Northern's proposed 2001/2002 Winter COG rate of

\$0.6549 per therm represents a decrease of \$0.0806 per therm from the average weighted 2000/2001 Winter COG rate of \$0.7355 per therm.

2. Calculation of the FPO Rates

The methodology employed in calculating the FPO rate is identical to that used in calculating the COG rate. The difference between the COG and FPO rates arise, primarily, from having pre-bought and/or hedged the gas supplies to be used for FPO program participants in the upcoming winter.

The proposed 2001/2002 Winter FPO rates are:
Residential, \$0.7134 per therm; C&I Low Winter Use, \$0.5223 per therm; and C&I High Winter Use, \$0.7736 per therm.

Northern's Revised 2001/2002 Winter COG filing adjusted the COG and FPO rates to account for a correction to the prior period under collection, reducing it by \$895,202. That adjustment, and several other minor adjustments, resulted in a lower FPO rate than was publicized in Northern's initial offering to customers. A comparison of the per therm FPO rates customers contracted for and what will be billed are: Residential, \$0.7254 per therm versus \$0.7134 per therm; C&I low winter use, \$0.5311 per therm versus \$0.5223 per therm; and C&I high winter use, \$0.7866 per therm versus \$0.7736 per therm. FPO customers will be notified of the rate change on November bills.

3. Reasons for the Decrease & Customer Bill Impact

The decrease in the proposed COG rate compared to last winter's rate can be attributed to two factors: 1) a decrease in the actual and projected natural gas and supplemental fuel prices; and 2) a reduction in the 2001/2002 Winter COG prior period under-collection compared to the 2000/2001 Winter COG prior period under-collection.

The reduction in actual and projected commodity prices for the upcoming winter compared to actual gas costs for last winter accounts for approximately 90% of the rate decrease, with the change in the under-collection accounting for the other 10%.

The impact of the proposed firm sales COG rate and revised surcharges is a monthly decrease on the average residential heating customer's bill of \$15, or 9%, as compared to last winter.

4. Rate Redesign and Gas Restructuring Surcharges

The surcharge to recover rate redesign rate case expenses was approved by Commission Order No. 23,691 (April 30, 2001), a per therm charge of \$0.0020 for Residential rate classes and \$0.0048 for C&I rate classes, to be collected over one year, commencing with service rendered May 1, 2001.

The surcharge to recover restructuring expenses was approved by Commission Order No. 23,820 (October 31, 2001), a per therm charge of surcharge of \$0.0028 for firm C&I rate classes, to be collected over one year commencing with service rendered

November 1, 2001.

5. Wells LNG Peaking Facility Surcharge

In *Re Northern Utilities, Inc.*, 84 NH PUC 669, the Commission approved a Joint Settlement for recovery of costs related to exiting the Wells LNG Peak Shaving Facilities contract. The settlement provided for recovery of \$422,616 in year three, commencing November 1, 2001. Year two revenues from the Northern Wells Exit Fee surcharge of \$0.0094 per therm exceeded the year two recovery amount, resulting in an over-collection of \$44,301. In accordance with a previous Commission directive, the over-collection has been deducted from this year's recovery amount, resulting in a surcharge of \$0.0065 per therm.

6. Environmental Remediation Surcharge

In Order No. 23,046 *Re Northern Utilities, Inc.* 83 NH PUC 580 (1998), the Commission approved a mechanism for recovery of environmental remediation costs (ERC) associated with former manufactured gas plant (MGP) sites, such costs to be filed during Northern's winter COG proceeding for review and, if approved, recovered over seven years. Northern filed for recovery of unamortized deferred environmental remediation costs of \$2,301,759, incurred from July 1, 2000 through June 30, 2001. These remediation expenses, to be recovered over seven years, combined with prior year's expenses approved for recovery and unamortized to date, legal expenses of \$1,273 in seeking third

party recoveries and a \$76,167 insurance recovery adjustment related to the reconciliation of previously allocated insurance recoveries between Bay State Gas, Northern-Maine and Northern-New Hampshire, result in period costs of \$406,263 to be recovered from ratepayers. The proposed ERC rate is \$0.0059 per therm for the period of November 1, 2001 through October 31, 2002.

Third party recoveries allocated to New Hampshire total \$3,974,556 as of June 30, 2001. The recoveries have been, and will be, used to offset environmental remediation costs.

7. Conservation Charges

The proposed Conservation Charges are designed to collect lost net revenues that resulted from discontinued Demand Side Management programs and the estimated over or under-recovery balances with applicable interest. Northern proposed the following Conservation Charges for effect November 1, 2001: Residential Non-Heating at \$0.0009 per therm; Residential Heating at \$.0017 per therm; Small Commercial at \$0.0001 per therm; and Large Commercial at \$0.0006 per therm.

7. Notification of Monthly COG Rate Adjustments

Northern, as directed in Commission Order No. 23,690 (April 23, 2001) approving Northern's 2001 Summer COG, reported on its plans to provide timely customer notification of monthly changes in the COG rate.

Northern has begun posting rate information for its New

Hampshire customers on the Northern Web page which notifies customers of impending changes through a message reading:

"Beginning with gas you use on [effective date of new COG rate] the cost of gas component on your bill will [increase/decrease] by [difference between current and rate to be implemented] to [new rate] per therm." The message is posted within 24 hours of filing a monthly COG rate change with the Commission.

In addition, Northern is instituting a dedicated 1-800 Gas Information Line that customers can call, make a menu selection, and get a prerecorded message that will notify customers of an impending COG rate change. As with the Web page, this information would be available within 24 hours of filing a monthly COG rate change with the Commission.

B. OCA

The OCA did not oppose Northern's proposed COG rate and surcharges, pending a review of Northern's responses to two OCA record requests: 1) why third party recoveries related to environmental remediation had been reallocated twice, to the detriment of New Hampshire ratepayers; and 2) how winter related costs incurred during the summer period were allocated between Northern-Maine and Northern-New Hampshire.

The OCA asked that Northern consider issuing a press release when making monthly rate adjustments within the approved range, in addition to posting changes on its web site and toll

free 'gas cost information' phone line.

C. Staff

Staff stated that it had reviewed the filing and recommended approval of the proposed COG and FPO rates and surcharges. The Audit Staff audited the 2000/2001 Winter COG results and had identified some errors, but that Northern had corrected those errors prior its filing.

Staff noted that the Commission had hired a consultant, GRC Associates, Inc., to review Northern's supply portfolio and had recently received the consultant's report. The consultant found Northern's supply portfolio to be reasonable but recommended additional schedules as part of future COG filings to facilitate Staff's review. Staff stated that it will be pursuing discussions with Northern regarding future COG filing requirements.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that Northern's proposed COG rates and surcharges will result in just and reasonable rates. Accordingly, we accept and approve Northern's proposed 2001/2002 Winter COG rate, the proposed Wells Exit Surcharge, Environmental Cost Recovery Surcharge, Restructuring Cost Surcharge, Rate Expense Surcharge, and Conservation Charges. The costs associated with these rates

are, of course, reconcilable and subject to the Commission's continuing investigation.

We also approve of Northern's proposed treatment regarding a reduction in the FPO rates from that for which customers have been enrolled, as the enrollment rate incorrectly charged those customers for an erroneous under-collection from a prior period. Because the incorrect under-collection was included in calculating both the original COG and FPO rates, which was included in the enrollment literature, customers relying on that comparison in determining whether or not to enroll in the FPO program would likely have reached the same decision if the original rates had included the correct under-collection.

We believe Northern's proposal to provide gas rate information through its Web page and a toll free 'gas information' telephone line is a cost-effective means to provide all customers the opportunity to learn of monthly rate changes prior to implementation and to react accordingly. We also believe the OCA's recommendation that Northern issue a press release announcing changes in the monthly COG rate prior to the effective date of the new COG rate, when there has not been prior notification, has merit and should be considered. We direct Northern to implement such a policy or explain in its 2002 Summer COG filing why it is not in the interest of the public to do so.

Also, consistent with the COG rate change billing

treatment approved by the Commission for Northern in Docket DG 00-046, Northern Utilities, Inc., Order No. 23,674 (April 5, 2001), we waive the application of N.H. Admin. Rules, Puc 1203.05(b), which requires that rate changes occurring as a result of a cost of gas adjustment proceeding be implemented on a bills-rendered basis. This waiver, pursuant to Puc 201.05, produces a result consistent with the principles embodied in Puc 1203.05(a), which states that all rate changes, with the exception described in (b), shall be implemented on the basis of service rendered on or after the effective date of the approved rate change.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2001/2002 Winter COG and FPO per therm rates for the period of November 1, 2001 through April 30, 2002 are APPROVED effective for service rendered on or after November 1, 2001 as follows:

	Cost of Gas	Minimum COG	Maximum COG	Fixed Price Option
Residential	\$0.6549	\$0.5239	\$0.7858	\$0.7134
C&I, low winter use	\$0.4794	\$0.3835	\$0.5753	\$0.5223
C&I, high winter use	\$0.7101	\$0.5681	\$0.8521	\$0.7736

FURTHER ORDERED, that Northern may, without further

Commission action, adjust the approved COG rates upward or downward monthly based on Northern's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not exceed twenty percent (20%) of the approved unit cost of gas, the minimum and maximum rates as set above; and it is

FURTHER ORDERED, that Northern shall provide the Commission with its monthly calculation of the projected over or under-calculation, along with the resulting revised COG rates for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Northern shall include a revised tariff pages 39 & 40 - Calculation of Cost of Gas Adjustment and revised rate schedules if Northern elects to adjust the COG rates; and it is

FURTHER ORDERED, that the over or under-collection shall accrue interest at the Prime Rate reported in the *Wall Street Journal*. The rate is to be adjusted each quarter using the rate reported on the first date of the month preceding the first month of the quarter; and it is

FURTHER ORDERED, that Northern's proposed 2001/2002 Local Distribution Adjustment Clause (LDAC) per therm rates for the period November 1, 2001 through October 31, 2002, except for the Rate Case Expense Surcharge which is currently in effect and expires on April 30, 2002, are APPROVED effective for service

rendered on or after November 1, 2001 as follows:

	Demand Side Mgmt.	Envir. Remed. Costs	Wells Exit Fee	Gas Restr. Costs	Rate Case Expense	LDAC
Residential Heating	\$0.0017	\$0.0059	\$0.0065		\$0.0020	0.0161
Residential Non-heating	\$0.0009	\$0.0059	\$0.0065		\$0.0020	0.0153
Small C&I	\$0.0001	\$0.0059	\$0.0065	\$0.0028	\$0.0048	0.0201
Medium C&I	\$0.0006	\$0.0059	\$0.0065	\$0.0028	\$0.0048	0.0206
Large C&I	\$0.0006	\$0.0059	\$0.0065	\$0.0028	\$0.0048	0.0206

FURTHER ORDERED, that the Commission waives N.H. Admin. Rules Puc 1203.05(b) and will allow Northern to implement its 2001/2002 Winter COG rates on a service-rendered basis; and it is

FURTHER ORDERED, that Northern shall file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of October, 2001.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Claire D. DiCicco
Assistant Secretary